

**SANILAC TRANSPORTATION CORPORATION**  
**Carsonville, Michigan**

**Component Units' Financial Statements**

**Annual Financial Report**

**September 30, 2007**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Sanilac Transportation Corporation	County Sanilac
Fiscal Year End 9/30/07	Opinion Date 3/10/08	Date Audit Report Submitted to State 3/31/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

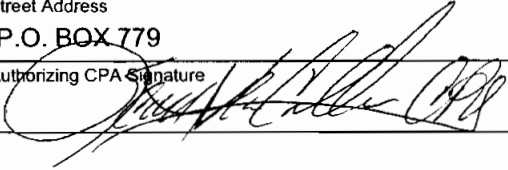
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Robson & McCallum, CPA's		Telephone Number 810-664-2961	
Street Address P.O. BOX 779		City LAPEER	State MI
Authorizing CPA Signature 		Printed Name Scott A. McCallum, CPA	Zip 48446
		License Number 15463	

Sanilac Transportation Corporation  
Annual Financial Report  
For the Fiscal Year Ended September 30, 2007

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Sanilac Transportation Corporation  
Carsonville, Michigan 48419

We have audited the financial statements of the Sanilac Transportation Corporation, a component unit of the County of Sanilac, as of and for the year ended September 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the management of the Corporation and the County of Sanilac. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements present fairly, in all material respects, the financial position of the Sanilac Transportation Corporation at September 30, 2007, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have issued our report dated March 10, 2008 on our consideration of Sanilac Transportation Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the component unit financial statements of Sanilac Transportation Corporation, County of Sanilac, taken as whole. The accompanying financial information listed as supplementary financial information in the table of contents, including the Schedule of Federal and State Financial Assistance as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of Sanilac Transportation Corporation. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Robson and McCallum

March 10, 2008

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS***

The management of Sanilac Transportation Corporation offers this narrative overview and analysis of the financial activities to the readers of our basic financial statements for the fiscal year ended September 30, 2007. This discussion and analysis is intended to give the reader an insight as to scope and focus of our financial issues and activities and the significance of those issues and their impact on our financial position. Readers are encouraged to consider this information in conjunction with the financial statements for a more clear vision of our operation.

Sanilac Transportation Corporation is structured as a private, not-for-profit corporation and contracts with Sanilac County to provide Demand Response public transportation to its citizens. State Operating originates at the state level from the Comprehensive Transportation Fund provided by Act No. 51 of the Public Acts of 1951, Section 18 of the Urban Mass Transportation Act of 1964, and is based on eligible expenses. Federal Operating is dispersed through the Michigan Department of Transportation using Section 5311 funds, also based on eligible expenses. Capital Funding is obtained from several sources, including State distribution of Federal funds, Section 5309 capital funding obtained through the earmarking system, and State matching funds.

### ***Overview of Financial Highlights***

- Sanilac Transportation has net assets of \$791,895 at fiscal year end 2007. These net assets result from the difference between total assets of \$899,594 and total liabilities of \$107,699.
- 
- Current assets of \$570,038 primarily consist of non-restricted cash and savings of \$413,206 and government receivables of \$123,262.
- 
- Current liabilities of \$77,742 primarily consist of government payable of \$42,371; accounts payable of \$19,884 and accrued compensation of \$15,487.

### ***Basic Financial Statements and Presentation***

The basic financial statements presented by the Sanilac Transportation Corporation are the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements are presented using the modified accrual basis of accounting; recognizing revenues when earned and measurable and expenses when incurred. All capital assets purchased over the amount of \$5,000 are capitalized and depreciated over their estimated useful lives using state and federal guidelines.

The *Statement of Net Assets* presents information on all of the Agencies assets and liabilities. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the agency is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases in assets without a corresponding increase to liabilities results in increased net assets, which indicate improved financial position.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Agency's net assets changed during the year. This statement summarizes operating revenues and expenses along with non-operating revenues and expenses. Prior period adjustment represents the net increase or decrease in assets from the prior period to the current.

The *Statement of Cash Flows* indicates the extent to which the Agency has the ability to generate sufficient cash flow to adequately meet its obligations in a timely manner. This statement is divided into three classifications: 1) Cash flows from operating activities; 2) Cash flows from non-capital financing activities; and 3) Cash flows from investing activities.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

### Financial Analysis of the Corporation

The following is a *Condensed Summary of Net Assets* as compared to Fiscal Year 2006.

	2006	2007
Current Assets (Cash, Accounts Receivable, Due from Federal Sources, Due from State Sources, Prepaid Expenses)	\$ 455,255	\$ 570,038
Capital Assets (net of accumulated depreciation) (Land, Leasehold Improvements, Furniture/Fixtures, Equipment, Revenue and Other Vehicles.	<u>473,164</u>	<u>329,556</u>
<b>Total Assets</b>	<b>\$ <u>928,419</u></b>	<b>\$ <u>899,594</u></b>
Current Liabilities (Accounts payable, Compensated Absences, Accrued Wages)	\$ 39,677	\$ 77,742
Other Liabilities (Compensated Absences)	<u>26,326</u>	<u>29,957</u>
<b>Total Liabilities</b>	<b>\$ <u>66,003</u></b>	<b>\$ <u>107,699</u></b>
Net Assets:		
Investment in Capital Assets	\$ 473,164	\$ 329,556
Unrestricted	<u>389,252</u>	<u>462,339</u>
<b>Total Net Assets</b>	<b>\$ <u>862,416</u></b>	<b>\$ <u>791,895</u></b>

The following is a *Condensed Summary of Revenues, Expenses and Changes in Net Assets* as compared to Fiscal Year 2006.

	2006	2007
Operating Revenues	\$ 514,378	\$ 513,866
Operating Expenses	<u>(1,152,513)</u>	<u>(1,176,185)</u>
<b>Operating Loss</b>	<b>\$ (638,135)</b>	<b>\$ 662,319</b>
Non-operating Revenues	<u>698,609</u>	<u>591,798</u>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 60,474</b>	<b>\$ (70,521)</b>
Net Assets – October 1	<u>801,942</u>	<u>862,416</u>
Net Assets – September 30	<b>\$ <u>862,416</u></b>	<b>\$ <u>791,895</u></b>

### Fixed Assets

The *Major classes of property and equipment* consist of the following:

	Useful Lives	Purchased with Corporate Funds	Purchased with Capital Grants	Total
Land	N/A	\$ 50,221	\$ 0	\$ 50,221
Furniture and Office Equipment	5-10 years	25,827	62,167	87,994
Leasehold Improvements	10-20 years	32,371	0	32,371
Vehicles	5-7 years	26,995	1,203,507	1,230,502
Equipment	5-10 years	<u>8,137</u>	<u>41,186</u>	<u>49,323</u>
<b>Subtotal</b>		<b>\$143,551</b>	<b>\$ 1,306,860</b>	<b>\$ 1,450,411</b>
Less Accumulated Depreciation		<u>(79,817)</u>	<u>(1,041,038)</u>	<u>(1,120,855)</u>
<b>Net Property &amp; Equipment</b>		<b>\$ <u>63,734</u></b>	<b>\$ <u>265,822</u></b>	<b>\$ <u>329,556</u></b>

### ***Financial Operating Results***

*Operating Revenues* are summarized into the following categories:

*Special Transit Fares* are paid monthly, under contract, and based on a predetermined dollar amount. Fiscal Year 2007 resulted in \$306,000 from Community Mental Health and \$165,000 from the Intermediate School District for transportation to and from school, training and other program sites. Sanilac Transportation Corporation tracks the rides provided for these entities and reports on ridership on a quarterly basis. Contracts for this service are on file at the Sanilac Transportation Corporation offices.

*Fare box revenues* consist of individual fares and fares purchased by other agencies on a per ride basis. Payment consists of cash, pre-purchased tickets and tickets presented and billed for. Agencies such as the Human Development Commission, Family Independence Agency, Michigan Works and the Recycling Center represent the bulk of tickets presented and billed for.

*Freight Income* results from the delivery of packages and is a very minute part of total income. Packages are delivered secondary to our passengers, and passengers are never left unattended during the delivery process. Revenue from package delivery is an ineligible expense for the purpose of State and Federal Operating formula funding.

*Non-Operating Revenues* are summarized into the following categories:

*Federal Grants and Reimbursements* in the amount of \$171,979 were paid from Section 5311 funds and based on eligible expenses. Fiscal Year 2007 reimbursement rate has been determined to be seventeen percent (17%).

*State Operating Grants* are allocated by the Michigan Department of Transportation based on eligible expenses submitted by all Michigan transit agencies. Funds are allocated three times. First based on Statewide budgets, re-allocated based on transit reconciliations that take place about two months after the end of the fiscal year, and a third time based on annual audits which are due six months after the fiscal year end. State Operating is estimated to be 38.62% of eligible expenses, or \$392,422 for Fiscal Year 2007.

*Other Non-Transportation Revenues* consist of interest on savings and billing fees, which are charged at a rate of five dollars (\$5) per billing cycle, which is one month. Also, when the Thumb Area Michigan Works Workfare Service Enhancement service provides Sanilac Transportation Corporation with bus washers we are paid one hundred dollars (\$100) per week to cover host site oversight responsibilities. Part of this includes orienting the client on the expectations of having a job, general oversight and evaluation. The client is afforded the opportunity to build a resume and obtain positive recommendations on future job opportunities. This amounted to an income of \$2400 for Fiscal Year 2007.

*Operating Expenses* are summarized into the following categories.

*Labor and Fringe Benefits*, at 43%, and benefits at 15% of total expenses, are the largest expense, as should be in a service industry business. They consist of a Director, a part-time Administrative Assistant, one full time certified Mechanic, two full time dispatchers, nine full time drivers, three part time drivers, a substitute driver and a part time bus washer. Full time benefits are available to an employee working thirty or more hours on a regular basis. Benefits include Health Insurance, Disability and Life Insurance, Paid Time Off, and an employer matched employee deferral plan; in addition to the traditional payroll taxes and Workers Compensation. The cost of health care makes up the lions' share of benefits expense, as is true in most, if not all, industries. Sanilac Transportation Corporation switched from BCBS to a similar MERS program, which is largely a self insurance program. This move appears to have held our costs back; even though cost has increased, it has been at a lower rate than would have under the old program.

*Service Expenses* include such things as advertising, towing, tire repair, service agreements for radio system and copy machine, custodian, payroll services, audit services, physicals and drug testing. This makes up 1% of total expenses.

*Materials and Supplies* consist of fuel, lubricants, tires, parts and other maintenance and office supplies. Maintenance supplies are 4% and fuel 11%. The cost per gallon of fuel increased 23% from October 1, 2006 to September 30, 2007. Fuel cost per gallon has increased 300% since 2001.

*Insurance* is through the Michigan Transit Pool – Liability Trust Fund, and the Michigan Transit Pool – Direct Property Damage Trust Fund. The Michigan Transit Pool is a self insurance group of Michigan Transit Agencies. The Liability Trust Fund premiums are determined by a formula using Passengers/Miles/Hours. The Direct Property Damage Trust Fund results in an effective deductible of \$10,000, with the excess shared liability among members up to \$100,000, when the excess catastrophic comprehensive coverage kicks in. This program has traditionally been more cost effective than traditional insurance methods. Other insurance is made up of Public Liability, Errors and Omissions and General Liability. All of these are purchased from local vendors.

*Other Miscellaneous Expenses* Include electricity, heating fuel, telephones, travel and meetings, dues and subscriptions and rent. Sanilac Transportation Corporation leases office and maintenance space for its operations at a rate of \$1500 per month.

#### ***Non-Financial and Other Miscellaneous Information***

*Sanilac Transportation* provided 95,904 rides in Fiscal Year 2007. Of that 78,225 were persons with handicaps, 5,281 were senior citizens. We used thirteen (13) vehicles which traveled 462,531 miles during its 252 days of operations, using 56,591 gallons of diesel fuel. We cover the entire 963 square miles that is Sanilac County. It is the largest land mass county in the lower peninsula of Michigan, and has a population of just over 44,500 residents. We are located in what is known as "the thumb" of Michigan. Sandusky is the County Seat and houses most of the services our clients need to get to. Sanilac Transportation is located in Carsonville, which is seven miles east of Sandusky.

Sanilac Transportation, for the County of Sanilac, is currently in the process of building *a new transit facility*. The building design is complete; contracts have been awarded for site work and utilities, as well as asphalt and paving. The remaining contracts are being reviewed and prepared for finalization, with a completion date for the project in early summer 2008. Budget for this project is \$1.9 million dollars. Half of that is available through State and Federal Grants, with the remaining being secured through a state infrastructure bank loan in the amount of \$850,000. Paperwork has been filed to allow Sanilac Transportation Corporation to use future grants to pay back this loan, and in fact, has a grant pending that will cover about half of that amount at this time.

The *overall benefit of this project* is that it will enable us to operate in a much more efficient and effective manner. Our service covers the entire 963 square miles of Sanilac County. Since Sandusky is the county seat and it houses most of the services that our citizens need to access, our service centers around Sandusky. We are located eight miles from Sandusky. This causes our buses to "dead head" those eight miles at the beginning and end of each run. This amounts to over 200 miles, and over seven hours per day. Those miles and hours could be more efficiently used to provide service to the residents of the county. The new facility will be located on the eastern edge of Sandusky, with easy access in each direction. We chose a location that put us close to the services our customers need to access, without putting us in the middle of a congested traffic area. We believe our facility will fit well into the future plans of the area. We will have easy access to all points of the county from this location.



**SANILAC TRANSPORTATION CORPORATION**  
**STATEMENT OF NET ASSETS**  
**September 30, 2007**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 413,206
Accounts Receivable	4,705
Due From Federal Sources	50,779
Due From State Sources	10,709
Prepaid Expenses	28,865
Due From County	<u>61,774</u>

Total Current Assets \$ 570,038

**Property and Equipment**

Land	\$ 50,221
Leasehold Improvements	32,371
Office Furniture and Equipment	87,994
Equipment	49,323
Vehicles	
Revenue	1,201,633
Other	<u>28,869</u>

Total Property and Equipment \$ 1,450,411  
Less: Accumulated Depreciation (1,120,855)

Net Capital Assets \$ 329,556

Total Assets \$ 899,594

**LIABILITIES**

**Current Liabilities**

Accounts Payable	\$ 19,884
Compensated Absences	5,286
Accrued Wages	10,201
Due to State	<u>42,371</u>

Total Current Liabilities \$ 77,742

**Other Liabilities**

Compensated Absences	<u>29,957</u>
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Total Liabilities \$ 107,699

**NET ASSETS**

Investment in Capital Assets	\$ 329,556
Unrestricted	<u>462,339</u>

Total Net Assets \$ 791,895

**SANILAC TRANSPORTATION CORPORATION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Year Ended September 30, 2007**

Operating Revenues	\$ 513,866
Operating Expenses	<u>(1,176,185)</u>
Operating Loss	\$ (662,319)
Nonoperating Revenues	<u>591,798</u>
Decrease in Net Assets	\$ (70,521)
Net Assets - October 1, 2006	<u>862,416</u>
Net Assets - September 30, 2007	<u>\$ 791,895</u>

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**Year Ended September 30, 2007**

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

Cash Flows From Operating Activities

Cash From Customers	\$ 514,183
Payments to Suppliers and Others	(588,222)
Payments to Employees	<u>(507,752)</u>
Net Cash Used by Operating Activities	<u>\$ (581,791)</u>

Cash Flows From Non-Capital Financing Activities

Cash From State Operating Assistance	\$ 448,938
Cash From Federal Operating Assistance	<u>179,873</u>
Net Cash Flows Provided by Non-Capital Financing Activities	<u>\$ 628,811</u>

Cash Flows From Investing Activities

Interest Earned	<u>\$ 16,989</u>
Net Increase (Decrease) in Cash	\$ 64,009
Cash - October 1, 2006	<u>349,197</u>
Cash - September 30, 2007	<u><u>\$ 413,206</u></u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (662,319)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation	143,608
(Increase) Decrease in	
Accounts Receivable - Customers	317
Accounts Receivable - County	(61,774)
Prepaid Expenses	(948)
Increase (Decrease) in	
Accounts Payable	(5,928)
Accrued Payroll	982
Compensated Absences	4,271
Net Cash Used by Operating Activities	<u><u>\$ (581,791)</u></u>

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2007**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**DESCRIPTION OF REPORTING ENTITY:**

As a component unit of the County of Sanilac, the Corporation has entered into a contract with the County to operate a county-wide transportation system with financial assistance provided by Act No. 51 of the Public Acts of 1951, Section 18 of the Urban Mass Transportation Act of 1964.

The accounting policies of Sanilac Transportation Corporation conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

**BASIS OF ACCOUNTING:**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable; expenditures are recognized when they become a liability. Enterprise funds are accounted for using the full accrual basis of accounting. The full accrual basis of accounting provides that revenues are recorded when earned and expenditures are recorded when the liability is incurred.

**BUSINESS TYPE FUNDS ACTIVITIES:**

Enterprise Funds - Enterprise Funds are used to account for operations (A) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (B) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**CASH, CASH EQUIVALENTS, AND INVESTMENTS:**

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity date of three months or less when acquired are considered to be cash equivalents.

**CREDIT RISK:**

Deposits are carried at cost. Deposits are in two financial institutions in the name of the Corporation. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than fifty percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money.

**RISK FINANCING:**

The Sanilac Transportation Corporation is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The Corporation is a member of the Michigan Transit Pool (a group self insurance pool) to account for and finance these risks of loss. Currently, the pool has two separate loss protection programs known as the Liability Coverage Program and the Direct Property Damage Coverage Program. The Liability Coverage Program provides coverage for motor vehicle liability as required by state law and general liability coverage. The Direct Property Damage Coverage Program provides coverage for collision losses, comprehensive losses, and losses of use.

**SANILAC TRANSPORTATION CORPORATION****NOTES TO FINANCIAL STATEMENTS****September 30, 2007****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****RISK FINANCING: (Continued)**

Payments ("premiums") charged to members participating in the Liability Coverage Program and the Direct Property Damage Coverage Program are determined in amounts pursuant to cost allocation plans for each program. However, both of the programs involve the transferring of risk of loss amongst members, and premiums are subject to retrospective adjustments to prior years. Since liability claims can remain pending for many years, several retrospective adjustments for each program year are likely. Under most circumstances, the Corporation's maximum loss per occurrence is limited as follows:

	<u>DEPOSIT PREMIUMS</u>	<u>MAXIMUM RETENTION PER OCCURRENCE</u>	<u>COVERAGE LIMIT PER OCCURRENCE</u>
Motor Vehicle and General Liability	\$ 36,660	\$ 100,000	\$ 1,000,000
If a loss is greater than the retention amount, the difference is covered by excess insurance carriers.			
Direct Property Damage	\$ 8,881	\$ 10,000	Book Value of Property

Members pay the first \$2,000 of each loss. The next \$8,000 is also the member's responsibility, but comes from the member's premium deposit. Loss amounts above \$10,000 are pooled, and shared between all program members, based upon the relative book values of each respective member. Comprehensive losses over \$50,000 are covered by the excess insurance carrier.

The Corporation reports its required contribution to these programs as insurance expense for the period of coverage. Additional assessments which are considered likely are accrued in accordance with FASB Statement No. 5. Any dividends or returns of contributions are recognized as a reduction of expense at the time the dividend is declared.

**CASH AND INVESTMENTS:**

The Corporation's deposits are in accordance with statutory authority.

**CUSTODIAL CREDIT RISK**

At September 30, 2007, the balance sheet carrying amount of deposits was \$413,206. The bank balance as of September 30, 2007 was \$418,301, of which \$119,590 was covered by FDIC insurance and \$100,000 was insured by the National Credit Union Administration.

At no time during the fiscal year did the Corporation's pension plan investment portfolio use derivative instruments or products.

**ACCOUNTS RECEIVABLE:**

Receivables have been recognized for all significant amounts due the Corporation. Valuation reserves have not been provided because the collection thereof is not considered doubtful.

**PROPERTY AND EQUIPMENT:**

Property and equipment are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method. For all fixed assets purchased with grant funds, depreciation is charged against contributed capital. For all assets purchased with operating funds, depreciation is expensed.

**SANILAC TRANSPORTATION CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2007

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**FIXED ASSETS:**

Major classes of property and equipment consist of the following:

	<u>USEFUL LIVES</u>	<u>PURCHASED WITH CORPORATE FUNDS</u>	<u>PURCHASED WITH CAPITAL GRANTS</u>	<u>TOTAL</u>
Land	N/A	\$ 50,221	\$ -0-	\$ 50,221
Furniture and Office Equipment	5-10 Years	25,827	62,167	87,994
Leasehold Improvements	10-20 Years	32,371		32,371
Vehicles	5-7 Years	26,995	1,203,507	1,230,502
Equipment	5-10 Years	8,137	41,186	49,323
Subtotal		\$143,551	\$ 1,306,860	\$ 1,450,411
Less: Accumulated Depreciation		<u>(79,817)</u>	<u>(1,041,038)</u>	<u>(1,120,855)</u>
Net Property and Equipment		<u>\$ 63,734</u>	<u>\$ 265,822</u>	<u>\$ 329,556</u>

Additions and Disposal for the year ended September 30, 2007 are as follows:

	<u>BALANCE 10/01/06</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE 9/30/07</u>
Capital Assets Not Being Depreciated				
Land	\$ 50,221	\$ -0-	\$ -0-	\$ 50,221
Capital Assets Being Depreciated				
Furniture and Office Equipment	\$ 87,994	\$ -0-	\$ -0-	\$ 87,994
Leasehold Improvements	32,371			32,371
Vehicles	1,230,502			1,230,502
Equipment	49,323			49,323
Total Capital Assets Being Depreciated	<u>\$ 1,400,190</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,400,190</u>
Less Accumulated Depreciation for				
Furniture and Office Equipment	\$ 75,111	\$ 5,282	\$ -0-	\$ 80,393
Leasehold Improvements	26,684	1,151		27,835
Vehicles	827,852	136,870		964,722
Equipment	47,600	305		47,905
Total Accumulated Depreciation	<u>\$ 977,247</u>	<u>\$ 143,608</u>	<u>\$ -0-</u>	<u>\$ 1,120,855</u>
Total Capital Assets Being Depreciated, Net	<u>422,943</u>	<u>(143,608)</u>	<u>-0-</u>	<u>279,335</u>
Total Governmental Activity Assets, Net	<u>\$ 473,164</u>	<u>\$ (143,608)</u>	<u>\$ -0-</u>	<u>\$ 329,556</u>

**DEFERRED COMPENSATION:**

Sanilac Transportation Corporation offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of Sanilac Transportation Corporation for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in Sanilac Transportation Corporation's financial statements. Employer contributions for the year were \$4,545.

**SANILAC TRANSPORTATION CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2007

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**COMPENSATED ABSENCES:**

Vacation leave is earned in varying amounts depending on the employee's number of years of service and is made available to the employees monthly, not to exceed a total accumulation of twenty days. Sick leave is accumulated at the rate of ½ day for each month of service, not to exceed a total accumulation of twenty days each is determined on the employee's anniversary date.

**USE OF ESTIMATES:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**RIDERSHIP INFORMATION:**

Ridership information is recorded daily. The bus odometers are read each evening by the manager and the mileage for that day is recorded on the respective bus mileage log. In addition, each day the driver records the number and type of riders on a driver's log. Drivers' logs are turned in to the manager at the end of the day. These records provide the ridership figures for the quarterly operating reports submitted to the State.

**DESCRIPTION OF LEASING ARRANGEMENT:**

The Corporation conducts all of its operations from leased facilities which include an office and a storage building. The lease is classified as an operating lease. The rental payments under the terms of the lease are based upon a monthly minimum rental. The Corporation can amend or extend the lease terms by endorsement of the lessor and lessee. The Corporation is responsible for liability and fire loss insurance and utilities on leased facilities. The status of the lease as of September 30, 2007 is on a month to month basis at a rate of \$1500 per month.

**SANILAC TRANSPORTATION CORPORATION**  
**OPERATING REVENUES**  
Year Ended September 30, 2007  
Schedule 1

Operating Revenues

Special Transit Fares	\$ 465,000
Customer Fares and Ticket Sales	37,547
Freight Income	198

Non-Transportation Revenue

Refunds, Oversight and Billing Fees	2,630
Fuel Tax Refund	<u>8,491</u>

Total Operating Revenues	<u>\$ 513,866</u>
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**SANILAC TRANSPORTATION CORPORATION****OPERATING EXPENSES**

Year Ended September 30, 2007

**Schedule 2**

	<b><u>OPERATIONS</u></b>	<b><u>MAINTENANCE</u></b>	<b><u>GENERAL ADMINISTRATION</u></b>	<b><u>TOTAL SYSTEM</u></b>
Operating Expenses				
Labor				
Operator Wages	\$ 335,695	\$ -0-	\$ -0-	\$ 335,695
Other Wages	22,823	36,265	57,030	116,118
Dispatcher Wages	61,192			61,192
Fringe Benefits	162,316	3,751	15,461	181,528
Advertising			2,946	2,946
Services	315	7,087	13,830	21,232
Materials and Supplies Consumed				
Fuel and Lubricants	139,995			139,995
Tires and Tubes	8,403			8,403
Other Materials and Supplies		53,580	11,381	64,961
Utilities		5,427	9,443	14,870
Casualty and Liability Costs				
Premiums for Public Liability and Property Damage Insurance	30,113			30,113
Premiums - Other Corporate Insurance			13,522	13,522
Miscellaneous				
Travel, Meetings, and Training	3,710	578	4,939	9,227
Dues and Subscriptions			1,851	1,851
Other Expenses	278		12,646	12,924
Leases and Rentals		12,000	6,000	18,000
Depreciation and Amortization	<u>137,175</u>	<u>        </u>	<u>6,433</u>	<u>143,608</u>
Total Operating Expenses	<u>\$ 902,015</u>	<u>\$ 118,688</u>	<u>\$ 155,482</u>	<u>\$ 1,176,185</u>

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**

**NONOPERATING REVENUES**

**Year Ended September 30, 2007**

**Schedule 3**

Nonoperating Revenues  
State of Michigan Grants

Operating Contract 02-0083/Z5	\$ 1,382
Operating Assistance (Act 51) 2006 - 2007	<u>392,422</u>
Total State Grants	<u>\$ 393,804</u>

Federal Grants

Contract - 02-0083/Z5 - Section 5313(b)	\$ 5,526
Contract - 07-0083/Z1 - Section 5311	171,979
Rural Transit Assistance Program	<u>3,500</u>

Total Federal Grants \$ 181,005

Interest Income 16,989

Total Nonoperating Revenues \$ 591,798

**SANILAC TRANSPORTATION CORPORATION**  
**SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS**  
Year Ended September 30, 2007  
Schedule 4

	<b><u>RURAL TRANSIT ASSISTANCE PROGRAM</u></b>	<b><u>OPERATIONS</u></b>	<b><u>TOTAL</u></b>
Labor	\$ -0-	\$ 513,005	\$ 513,005
Fringe Benefits		181,528	181,528
Advertising		2,946	2,946
Services		21,232	21,232
Materials and Supplies		213,359	213,359
Utilities		14,870	14,870
Casualty and Liability Costs		43,635	43,635
Miscellaneous Expense	3,500	20,502	24,002
Lease and Rentals		18,000	18,000
Depreciation		<u>143,608</u>	<u>143,608</u>
Total	<u>\$ 3,500</u>	<u>\$1,172,685</u>	<u>\$1,176,185</u>

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**  
**NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS**

Year Ended September 30, 2007

Schedule 5

	<b><u>FEDERAL</u></b> <b><u>SECTION 5311</u></b>	<b><u>STATE</u></b> <b><u>OPERATING</u></b> <b><u>ASSISTANCE</u></b>
Expenses		
Labor	\$ 513,005	\$ 513,005
Fringe Benefits	181,528	181,528
Advertising	2,946	2,946
Services	21,232	21,232
Materials and Supplies	213,359	213,359
Utilities	14,870	14,870
Casualty and Liability Costs	43,635	43,635
Miscellaneous	20,502	20,502
Leases and Rentals	18,000	18,000
Depreciation	<u>143,608</u>	<u>143,608</u>
Total Expenses	<u>\$ 1,172,685</u>	<u>\$ 1,172,685</u>
Less: Cost of 2005-2006 Audit	\$ 4,450	\$ -0-
Ineligible Dues	166	166
Depreciation	138,191	138,191
Adjustment to Accounts Receivable - State Assistance	2,641	2,641
Expenses Reimbursed by Contract 02-0083/Z5	6,908	6,908
Fuel Taxes Refunded	<u>8,491</u>	<u>8,491</u>
Total Ineligible Expenses	<u>\$ 160,847</u>	<u>\$ 156,397</u>
Less: Non-Transportation Revenue	<u>\$ 198</u>	<u>\$ 198</u>
Net Eligible Expenses	<u>\$ 1,011,640</u>	<u>\$ 1,016,090</u>
Maximum Section 5311 Reimbursement (17.0%)	<u>\$ 171,979</u>	
Preliminary Reimbursement (38.6208%)		<u>\$ 392,422</u>

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**  
**DETAIL OF INELIGIBLE EXPENSES AND REVENUES**

Year Ended September 30, 2007

Schedule 6

**INELIGIBLE EXPENSES:**

Costs reimbursed for a county-wide coordination study with grant fund monies is an ineligible expense. A percentage of dues paid to MASSTrans are ineligible. Expenses reimbursed under Capital Contract 02-0592 are ineligible. During the fiscal year 2006-2007, certain Act 51 receivables were written off which is an ineligible expense. Fuel taxes refunded are an ineligible expense.

**NON-TRANSPORTATION REVENUE:**

Freight tariffs and expense reimbursements under Michigan Works and other local agreements are deducted as ineligible project revenue for Federal Section 5311 and State Operating Assistance.

Freight Income	\$ 198
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**NOTE:**

Since the Company did not expend more than \$500,000 in federal funds during the fiscal year 2006, the \$4450 cost of the audit is not eligible for federal reimbursement.

**SANILAC TRANSPORTATION CORPORATION**  
**MILEAGE DATA (UNAUDITED)**  
**Year Ended September 30, 2007**  
**Schedule 7**

**PUBLIC**  
**TRANSPORTATION**  
**MILEAGE**

Demand - Response

1st Quarter - December 31, 2006	121,891
2nd Quarter - March 31, 2007	120,065
3rd Quarter - June 30, 2007	112,995
4th Quarter - September 30, 2007	<u>107,746</u>
Total Demand - Response	<u>462,697</u>
Total Operation	<u>462,697</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reasonable method for recording vehicle mileage.

See Auditor's Report and Notes to the Financial Statements.

**SANILAC TRANSPORTATION CORPORATION**  
**SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE**  
Year Ended September 30, 2007  
Schedule 8

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	STATE GRANTOR NUMBER	PROGRAM OR AWARD AMOUNT	CURRENT YEAR (DEFERRED) REVENUE 10/1/06	CURRENT YEAR RECEIPTS/ REVENUE RECOGNIZED	ACCRUED EXPENDITURES AND ADJUSTMENTS	(DEFERRED) REVENUE AT 09/30/07
Federal Transit Administration Passed through Michigan Department of Transportation Operating Assistance - Section 5311	20.509	07-0083/Z1	\$ 171,979	\$ -0-	\$ 123,183	\$ 171,979	\$ 48,796
		02-0083/Z9		42,002	41,347		655
		02-0083/Z8		(610)			(610)
		02-0083/Z6		7,808	6,685		1,123
		02-0083/Z4		447			447
Rural Transit Assistance Program Project Assistance - 5313	20.515			-0-	3,132	3,500	368
		02-0083/Z5		-0-	5,526	5,526	-0-
Total Federal Financial Assistance				\$ 49,647	\$ 179,873	\$ 181,005	\$ 50,779
Michigan Department of Transportation Operating Assistance - Act 51, 2006-07 Operating Assistance - Act 51, 2005-06 Operating Assistance - Act 51, 2004-05 Operating Assistance - Act 51, 2002-03 Project Assistance			\$ 392,422	\$ -0-	\$ 434,793	\$ 392,422	\$ (42,371)
				5,661			5,661
				10,671	11,018	347	-0-
				7,140	1,745	(347)	5,048
		02-0083/Z5	\$ 8,600	-0-	1,382	1,382	-0-
Total State Financial Assistance				\$ 23,472	\$ 448,938	\$ 393,804	\$ (31,662)
Total Federal and State Financial Assistance				\$ 73,119	\$ 628,811	\$ 574,809	\$ 19,117



**ROBSON AND McCALLUM**  
*Certified Public Accountants*

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Carole A. Robson, CPA • Scott A. McCallum, CPA • Members AICPA and MACPA

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Sanilac Transportation Corporation  
Carsonville, Michigan 48419

We have audited the basic financial statements of the Sanilac Transportation Corporation as of and for the year ended September 30, 2007, and have issued our report thereon dated March 10, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Sanilac Transportation Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sanilac Transportation Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robson & McCallum, CPA's  
March 10, 2008





**ROBSON AND McCALLUM**  
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To the Board of Directors  
Sanilac Transportation Corporation

We have audited the financial statements of Sanilac Transportation for the year ended September 30, 2007 and have issued our report thereon dated March 10, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sanilac Transportation Corporation are described in the Notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates for 2007.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant disclosures.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Sanilac Transportation Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert J. McCall" followed by a stylized flourish or initials.